Tools for screening prospective investors

This note supplements Note 6: Screening prospective investors.

The investment screening process requires suitable tools for assisting government agencies in their work. This note provides examples of tools that government agencies can adapt to their national context and use to develop the technical capacity to screen and select investors.

SCREENING SYSTEM FOR MULTIPLE STAGES

In line with the three stages of the screening process identified in Note 6, the screening tools that follow identify a series of issues for assessment at each stage (figure 1). Alongside each issue the following supplementary information is provided:

- The overarching question that should be assessed with respect to each issue (in bold).
- Specific guiding questions that the screening body should consider with respect to each issue.
- Documentation that screening bodies can use during their deliberations.

Note that the guiding questions and documentation are designed to facilitate the gathering of information and the generation of an overall picture of the proposed investment in terms of its chances of success and the likely positive and negative impacts. It is unlikely that any one question will be definitive in deciding whether an investor is selected or rejected. The information gathered will enable the screening body to (a) make a value judgement about whether the investment is desirable, based on a range of factors; (b) evaluate the strengths and weaknesses, likely benefits, and risks of investment proposals; (c) identify areas in which further information or modifications to the proposal are required before approval can be granted; and (d) justify selection or rejection decisions to other government agencies and externally, as appropriate.

In addition, the outcomes of the questions should inform the business model, implementation strategies, and mitigation measures proposed by the investor.

The guiding questions could in principle be used to develop a scoring system, adapted to national circumstances and priorities, that would make possible a quantitative evaluation of investment proposals, especially in cases of competitive bids. Before adopting a scoring system, it is
important to consider that its application will be subjective and based on the judgement of those responsible for screening. It could also be used to identify areas of weakness that the proposed investments need to address before proceeding to subsequent stages of the screening process.

It is also worth noting that the screening tools below consider issues at each of the three stages of the screening process, though in different levels of detail and with varying information requirements. For example, with regard to community relations, in stage one, an initial discussion is held with communities to gauge, in principle, their receptiveness to having an investment project in the area. If the community is totally opposed to the investment and any attempt to acquire land in the area, the project is not worth pursuing further. If the attitude of communities is broadly positive, then a full-scale community consultation is required, the results of which should be reported in the complete business plan and assessed in Stage 2. In Stage 3, agreements made with communities (for resettlement, or for community development agreements) are verified as having been signed and finalized, to check that all is in order before final project approval for implementation is given. Accordingly, it is important for the screening body to be clear on and transparent about the types of information required at each stage.

Figure 1. Screening system process schematic

Source: UNCTAD and World Bank.

STAGE 1: CONCEPT SCREENING

Stage 1 is preliminary screening of core details about the proposed project and the investor, including site, crop, business model, and the investing company’s historical performance and financial backing. At this stage, an initial discussion with local communities is held, to determine their general receptiveness to investment in the area. If the investor appears credible, the project is consistent with national development goals, the proposed site is feasible, and local communities are receptive to discussion, then the screening body provides provisional approval. That authorizes the investor to produce a complete business and operational plan and undertake detailed consultations and impact assessments, as required (see concept screening tool on page 3).

STAGE 2: BUSINESS & OPERATIONAL PLAN SCREENING

Stage 2 then assesses (a) the extent to which the investment would generate social, economic, and environmental benefits or pose risks to local communities and the host country in general; and (b) the technical and financial details of the complete business plan in more depth (see business & operational plan tool on page 4).

STAGE 3: COMPLIANCE SCREENING

If the business plan is approved the project proceeds to Stage 3, in which due diligence is done to check that the legal and regulatory requirements are adhered to before final approval is given. The screening process ends with the signing of the investment contract (discussed in detail in Note 8: Investment contracts). The project is then monitored on an ongoing basis (as discussed in Note 9: Monitoring investments). (See compliance screening tool on page 6).
Screening and selection of investors can be a resource-intensive process, but it is critical to get it right. In some circumstances, governments may be constrained in their ability to complete the screening process outlined below. For this reason, annex 1 provides another tool: a simplified rapid assessment of an investor proposal. This is a streamlined screening tool that covers the key elements and can be adapted to national circumstances, in lieu of using the complete screening process.

### 1. CONCEPT SCREENING TOOL

<table>
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<tr>
<th>Issue to screen</th>
<th>Guiding questions to consider</th>
<th>Supporting documentation to review</th>
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</table>
| Investor credibility | *Is the investor broadly credible in terms of its reputation, experience, and financial capacity?*  
- Does the investor have a good track record, including on social and environmental responsibility?  
- Has the investor owned or run similar investments? If yes, how have they performed?  
- What is the corporate entity structure, registration locality of holding entities, and relationship between entities in the group?  
- What access to financial resources does the investor have?  
- Is the investor a state-owned or state-controlled company?  
- If the investor is a private equity fund, who are the limited partners (sovereign funds, pension funds, high-net-worth individuals) and general partners (the management team)? | *Websites*  
*News reports*  
*Press releases*  
*Annual reports*  
*Investor policy statements*  
*Investment portfolios*  
*Expression of interest; section outlining the funding plan for investors’ own funds versus debt finance*  
*Information from diplomatic missions*  
*External studies (for example, by civil society)* |
| Competency of directors and senior management | *Does the management team have the experience and responsible approach required to successfully develop an investment in the host country?*  
- Do the directors and/or senior managers have experience in investment projects of a similar nature and scale to that proposed?  
- Do the directors and/or senior managers have experience in projects in the host country, region, or continent?  
- What has been the financial, social, and environmental performance of projects that directors and/or senior managers have been or are involved with? | *CVs of directors and senior managers*  
*Online social media profiles (such as LinkedIn)*  
*Media reports on previous projects of directors and/or senior managers*  
*References*  
*Information from diplomatic missions*  
*External studies (for example, by civil society)* |
| Alignment with country development priorities | *Does the project proposal fit with national or regional development priorities?*  
- Is the enterprise the type the country needs for economic development?  
- What level of job creation is proposed? What types of jobs will be created?  
- What positive and negative spillovers could result?  
- How inclusive is the business model in regard to local business and farmers?  
- What likely investments would the state be required to make, and what will the investor make, for example, in rural infrastructure? | *Expression of interest document*  
*National and/or regional development plans*  
*National agriculture sector strategy*  
*Departmental and/or ministerial infrastructure budgets and development plan priorities for the area* |
| Proposed location (site) of the investment | *Is the intended site broadly suitable for an investment of the nature proposed?*  
- Is the resource base conducive to the enterprise proposed (climate, soils, water requirements)?  
- Are there social conflict issues that would materially place the investment at risk?  
- Are there land tenure issues including legacy land issues (historical land use rights) that need to be resolved?  
- Are there any obvious environmental impacts that need assessment?  
- How do infrastructure requirements compare with current availability (for roads, power, and telecommunication)? | *Maps indicating current land use and infrastructure (roads, transmission lines, bulk water projects, residential areas, conservation areas)*  
*Details of local tenure issues*  
*Natural resource assessment reports*  
*Locality-specific socioeconomic reports*  
*Previous environmental and social impact assessment reports of the area*  
*Report on current land use (past and current cropping, settlements, pastoralism)* |
### 1. CONCEPT SCREENING TOOL (Continued)

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| **Attitude of host community toward the investor** | *Is the local community sufficiently receptive to the proposal for it to be worthwhile engaging in further dialogue?*  
- Is the local community positively disposed to working with investors?  
- What was the outcome of the initial community mapping exercise?  
- Do community needs align with what the investor proposes to bring to the area?  
- Was the outcome of the initial consultation between the investor and the host community positive? What were the issues raised by the community regarding the proposed investment? | *Independent community mapping report (recommended that the investor engage an independent research entity to map the host community, to enable flagging of issues)*  
*Minutes of meetings between communities and investors and copy of signed cooperation resolutions*  
*Letters from local authorities to confirm initial consultation took place and provide details*  
*Land use plans*  
*Regional and/or district development plans* |

The screening tool encompasses many issues covered in depth elsewhere in the Knowledge Into Action Note Series. Readers are encouraged to consult individual notes for further guidance.

Source: UNCTAD and World Bank.

### 2. BUSINESS & OPERATIONAL PLAN SCREENING TOOL

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| **Environmental and social impact assessment** | *Has an environmental and social impact assessment been conducted and will the key impacts be sufficiently mitigated?*  
- Has a full environmental and social impact assessment been undertaken?  
- Are there any major impacts that cannot be mitigated?  
- Are mitigation measures realistic?  
- Have the findings of the environmental and social impact assessment been translated into an environmental management plan that is integrated into the business plan? | *Environmental and social impact assessment report*  
*Proposed environmental management plan* |
| **Land rights** | *Have all existing land rights been identified and will they be respected through the implementation of the investment?*  
- Has ownership of the land been correctly determined, and have all existing land rights been identified?  
- Are there any informal use rights, including, for example, temporary use rights such as those of pastoralists, on the property in question? Have the affected people been identified and the levels and value of the rights quantified?  
- Is there a need for any compensation?  
- Is there a need for any resettlement and relocation?  
- Is there agreement between the land holder and the investor on the form of transfer of land rights (that is, direct sale or lease)?  
- How do the investor’s land requirements impact upon local community needs and access? | *Land rights mapping report*  
*Agreements between investor and formal rights holders on terms of transfer (sale or lease agreement)*  
*Agreement between investor and any informal rights holder on compensation*  
*Relocation and resettlement action plan if required*  
*Environmental and social impact assessment report* |
| **Financial plan** | *Is the investment likely to be a financial success?*  
- Does the plan realistically map out the cash flow requirements of the business?  
- Is there a risk and sensitivity assessment of the impacts on the financial plan accounting for unseen events (such as delays in implementation, delays in yield performance, lower market prices, or increased production costs)? | *Full financial statements (actual and projected)*  
*Cash flow analysis*  
*Sensitivity analysis of key financial and business assumptions*  
*Letters of undertaking by financiers confirming funding and caveats for final approval* |
### 2. BUSINESS & OPERATIONAL PLAN SCREENING TOOL (Continued)

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| **Financial plan**       | • Does the project have patient capital that will be reliably available if required?  
  (Continued)  
  • What are the primary and contingency sources of funding? How reliable and stable are these?  
  • Are the cost of consultations with communities, impact assessments, and other requirements factored into financial plans? |                                                                                                                                                                                                                                       |
| **Technical feasibility**| Does the project make sense from a technical agroeconomic standpoint?  
  • Are climatic and soil conditions suitable for the project, including climate change considerations?  
  • Does the project have sufficiently reliable access to water?  
  • Can necessary inputs (fertilizer, fuel, machinery, parts) be easily sourced?  
  • Are production assumptions realistic?  
  • What farming practices will be employed and are these practices suitable?  
  • Is the business plan proceeding in sensible, sequential phases? | • Benchmarking of production assumptions with comparable projects  
  • Soil, rainfall, hydrology, topography surveys  
  • Irrigation plan  
  • Input sourcing strategy                                                                                                                                           |
| **Market for output**    | Are the projected volume and location of sales realistic?  
  • What are the major intended markets (regional, national, international) for each product and how have they evolved in recent years?  
  • What is the historic and projected price performance for each product?  
  • Have duties, tariffs, and foreign exchange fluctuations been accounted for in sales projections?  
  • What seasonality or cyclicity is there in the price of products and has this been accounted for?  
  • Are price controls or regulations applicable to the products? Have changes in the environment or market competition been accounted for? | • Description of intended markets, size and growth rates, projected sales  
  • Price and market projections                                                                                                                                         |
| **Incentives**           | Is the investor eligible for incentives?  
  • Does the investment proposal qualify for any investment incentives?  
  • Has the appropriate authority given approval for applicable investment incentives?  
  • How dependent on the receipt of incentives is the success of the operation? | • Approval of investment incentives  
  • Discussion of incentives in financial plan                                                                                                                           |
| **Human resources**      | What is the human resources strategy to ensure qualified staff are available to run the project?  
  • Is there an organizational structure with qualification of the numbers of employees required?  
  • Is the employment policy in line with country requirements (e.g. wages)?  
  • What is the composition of employees (expatriate vs. local, women vs. men, permanent vs. temporary)?  
  • Can sufficiently skilled employees be sourced locally or nationally? What plans are there to train and integrate locals into the workforce?  
  • Do the key staff have the level of expertise and experience needed to develop the project as planned?  
  • Are workers in the sector unionized? | • Organizational structure  
  • Statement of employment policy and practices  
  • Recruitment and training policies  
  • References and CVs  
  • Operational health and safety guidelines                                                                                                                            |
### 2. BUSINESS & OPERATIONAL PLAN SCREENING TOOL (Continued)

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| Shared value proposition | **What are the likely socioeconomic impacts of the investment for the host country and local communities?**  
- Are there any plans to integrate local smallholders into the value chain? Is there an outgrower scheme or contract farming arrangements? Are the contractual conditions fair and transparent?  
- What level of impact will the investment have on the local economy through spillovers to local suppliers?  
- What are the likely impacts on women, youth, and marginalized groups?  
- Is there any community agreement covering community development support and/or grievance redress mechanisms?  
- What will be the impact of the investment on food security?  
- Will any technology or agricultural practices be transferred to local smallholders?  
- Does the investor plan to develop infrastructure that could also be used by the public (such as roads, power, or water access)? | - Outgrower development plan  
- Policy statement on procurement practice  
- Identification of market (local and offshore) and value of sales and contribution to GDP  
- Community agreement, including grievance redress mechanisms  
- Gender policy |
| Community consultation | **Have community interests and rights been sufficiently taken into account in the business plan through a consultation process?**  
- Have community consultations been conducted in accordance with good practice?  
- What were the key issues raised during consultations?  
- How have the results of community consultations been integrated into the business plan? | - Results and records of community consultations  
- Community-investor agreements and/or community development agreements |

The screening tool encompasses many issues covered in depth elsewhere in the Knowledge Into Action Note Series. Readers are encouraged to consult individual notes for further guidance.

Source: UNCTAD and World Bank.

### 3. COMPLIANCE SCREENING TOOL

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| Environmental and social impact assessment and environmental management plan approval | - Has the environmental authority approved the environmental and social impact assessment and environmental management plan and issued a certificate? | - Environmental and social impact assessment certificate  
- Approved environmental management plan |
| Land rights | - Is there agreement on land rights issues with the host community, in cases of communal tenure?  
- Is there a land sale agreement, in freehold title situations?  
- Has agreement been reached on terms of compensation, if required?  
- Has agreement been reached on terms of any resettlement and relocation, if required? | - Signed land sale or lease agreement  
- Signed compensation agreement and/or community development agreement  
- Signed resettlement action plan |
| Financial | - Are the financial resources secured? | - Investor guarantees lodged  
- Financial approvals |
| Legal | - Is the business entity properly registered? | - Business registration and license to operate according to national laws and regulations |
| Community | - Have agreements with the community been agreed and signed? | - Community-investor agreement  
- Community development agreement |

Source: UNCTAD and World Bank.
REFERENCES AND RESOURCES

This Note is complementary to the literature and guidance documents to which many organizations have contributed, a selection of which is provided below. Further resources are provided in Note 2: Additional resources.


For more information please visit: www.worldbank.org/responsibleinvestment
ANNEX 1. SIMPLIFIED RAPID ASSESSMENT OF AN INVESTOR PROPOSAL

If a country does not have full-scale in-house capacity or the budget to hire external experts, it is highly recommended to conduct at least a simplified rapid assessment as follows:

**Review the investor**

*Gather basic information from the Internet (company’s website, news articles, industry journals):*

- Does the company’s history or current portfolio explain that it has experience in the proposed business?
- Does the proposed management team have experience?
- How many employment opportunities will be created (permanent and seasonal/temporary and annualized jobs created per unit of land) as a benchmark to compare with other enterprises?
- Are there any news articles which show how active the company is?
- Has the company had any issues, such as noncompliance with labor regulations, poor environmental management practices, and disputes over land rights? If so, specify the type and assess whether they may affect the proposed project.

*Seek information on the parent (holding) company if there is one:*

- How familiar is the company management with the agriculture sector proposed for the investment?
- Does the investor’s corporate investment time horizon align with the enterprise type proposed; that is, do they have a long-term view in cases such as timber, palm oil, and other plantation crops or are they a short-term investor focused on a quick exit? If so, what is their exit plan and is it realistic?

*Examine the financial statements:*

- How financially healthy are the project sponsors? Do they have a strong balance sheet (that is, a large value of equity and assets compared with liabilities plus cash reserves to meet investment obligations)?
- How does the project affect the investor; that is, how does it compare financially with business assets and reserves?
- **Income statement**: What is the main source of revenue and how stable is that?
- **Balance sheet**: What does the debt-equity ratio look like? Is there an adequate cushion of equity funding to cover any financial difficulties the project may face, particularly at the early phase?
- **Cash flow**: Does the company create positive cash flow? Does including the cash flow of the investment make flows negative? If it does, identify where the shortfall funding will come from.
- **Benchmarking**: If available, compare the investor with other companies in the industry.

**Review the business plan**

**Financial projections**

- Income statement:
  - **Revenue projection**: Validity check (especially for growth in expected volume and price). Verify if the growth of total revenue is realistic.
  - **Number, quantity, or volume of products**: What are the assumptions the projection is based on and do they have reasonable justifications? Is the starting number realistic? Are the growth rates of the short-, mid-, and long-term horizons feasible? Does the story make sense in light of the market size, the investor's (or smallholders') production capacity, and the competitive environment?
  - **Sales price**: Is the assumption reasonable in light of historical data? Is the growth projection realistic? Does the projection reasonably account for downside risk or cyclical waves?
  - **Cost projection**: Does it take into account all key items (such as transportation costs)? Is the division of fixed and variable costs reasonable? Are the fixed and variable costs consistent with the revenue projections and based on reasonable assumptions? Does the projection include costs for research, consultation with communities, and any necessary assessments?

- Balance sheet:
  - **Finance**: How reliable and secure is additional financing?

- Cash flow:
  - What does the cash flow look like?
  - When will positive cash flow occur? The further in the future, the higher the risks, so a sensitivity analysis should be done to assess the impact if key assumptions are not realized; for example, lower product process, slower offtake in yield growth curves, higher variable and direct costs.
  - How will the deficit be funded, and are there contingency plans to fund additional shortfalls and delays in accordance with the results of the sensitivity analysis?